

Homeowner Insurance:

Your Credit Score May Raise the Premium

By ANN CARRNS

If you own a home, there's yet another reason to maintain good credit: Insurance companies may give significant weight to your credit history when setting rates for homeowner coverage.

While insurers' use of consumer credit in setting rates is nothing new, homeowners may be surprised to know just how much their credit profile can affect their premiums. If you have merely fair credit, you'll pay about 32 percent more on average for homeowner insurance than those with stellar credit, according to a report from the insurance data firm Quadrant Information Services.

If you have poor credit, the impact is even greater: You'll pay twice as much on average, in most states, as those with top-tier credit, according to the study, which was commissioned by the rate-shopping site InsuranceQuotes.com.

Laura Adams, the site's senior analyst, said insurers were putting greater emphasis on consumer credit in most states, which makes it increasingly important to pay your bills on time and correct any errors in your credit report.

For its analysis, Quadrant used data from six major insurers representing about 60 percent of the market in each state. The study used a hypothetical 45-year-old who owns a 1,800-square-foot single-family home built in 1976, with a policy providing \$140,000 in dwelling coverage, \$300,000 liability coverage and a \$500 deductible. The report compared rates for three levels of credit rating: excellent, fair and poor.

The magnitude of the difference in rates based on credit standing varies by state. In New York, for example the analysis found the penalty for having fair rather than excellent credit was about 9 percent, one of the lowest nationally. In most other states that allow the use of credit files in setting rates, the increases were in the double digits.

Why does your credit history affect your homeowner premiums? Along with various factors like your home's age, insurers in most states also consider your "credit-based insurance score." Like a traditional credit score, which is used to determine whether you're likely to repay your debts, an insurance score is based on the information in your credit report — but the data may be weighted differently, and it's used to help predict the likelihood that you'll file a claim in the future. The lower the score, the higher the risk you'll file a claim for a loss — and the more you should pay, insurers say.

"It's all about trying to predict the likelihood of a claim," said David Snyder, vice president of policy development and research for the Property Casualty Insurers Association of America.

Some consumer groups object to the use of credit history in setting insurance rates, saying it may unfairly penalize consumers who have experienced tough financial times. Some states, including Massachusetts and Maryland, don't allow credit history to be used for setting homeowner rates, and others limits its use.

But insurers say factoring in credit rewards consumers for responsibly managing their finances. “Strong credit can lower your insurance costs,” said Robert Hartwig, president of the Insurance Information Institute, an industry group.

The Federal Trade Commission, in a 2007 report, found credit-based insurance scores were an “effective predictor” of the number and cost of automobile insurance claims consumers would file, although it said evidence was lacking to explain the correlation. The F.T.C. has been studying the impact of credit scoring on homeowner insurance premiums for several years. The agency didn’t respond to a request for an update on when it may publish its findings.

Some insurers use their own scoring models, while others use outside vendors, and different insurers may place greater emphasis on different aspects of your credit report in computing your score, said Lamont Boyd, insurance industry director for scores and analytics at FICO, which provides insurance-scoring software in addition to traditional credit scores.

Because of this variability, “you should shop around” if you think your premium is too high, Mr. Hartwig said.

Here are some questions about insurance scores:

■ *How would I know if my credit history hurt my insurance premium?*

Insurers must notify you if information in your credit report led to a denial of coverage or an increase in your premium, said Paul Stephens, director of policy and advocacy with the Privacy Rights Clearinghouse. You have a right to a free copy of the report that led to the action, he said. (You should obtain a free copy of your credit report each year anyway, at www.annualcreditreport.com.)

■ *Is a credit-based insurance score the same as a C.L.U.E. score?*

No. But both are used by insurers to help determine what you’ll pay for homeowner insurance (and auto insurance). A C.L.U.E. score — for Comprehensive Loss Underwriting Exchange — is based on a database, maintained by LexisNexis, that tracks claims with major insurers. If you have a history of expensive losses, you may pay more for your insurance.

■ *Can I obtain a copy of my claims history report?*

You’re entitled to a free copy of your C.L.U.E. report annually, Mr. Stephens said. (You may not have a report, however, if you haven’t filed any claims in the last seven years.) If you’re buying a new home, Mr. Stephens advises, request a copy from the seller. A history of repeated claims may flag the property as risk-prone and increase the premiums you’ll pay. For instructions on requesting a C.L.U.E. report, visit the [LexisNexis website](#).